



United States  
Department of  
Agriculture

## **2001 Sugar Payment-in-Kind Diversion Program**

### **Q: What is the Sugar Payment-in-Kind (PIK) Program?**

**A:** The Sugar PIK Program offers sugar beet and sugarcane producers the choice of diverting from production a portion of their crop in exchange for sugar held in Commodity Credit Corporation (CCC) inventory.

### **Q: Why is USDA conducting a 2001 Sugar PIK Program?**

**A:** The Sugar PIK Program will help reduce the large Government inventory overhanging the market. Currently, CCC holds about 731,423 tons of sugar (436,869 tons refined and 294,554 tons raw cane sugar) in 43 locations in 17 states at a cost of approximately \$16.1 million annually. PIK is not only a good inventory management policy, it will help raise prices above forfeiture levels, deter additional forfeitures to CCC, and reduce Government outlays.

### **Q: How did CCC obtain such a large sugar inventory?**

**A:** As a result of depressed sugar prices last year, CCC acquired 1,024,491 tons of sugar in FY 2000 through USDA's sugar program. Sugar beet and sugarcane processors

forfeited 892,491 tons of nonrecourse loan collateral, and CCC purchased 132,000 tons of sugar to reduce the cost of FY 2000 forfeitures. Under the sugar program, sugar beet and sugarcane processors have the option to forfeit their CCC loan collateral in lieu of repayment of loan principal and interest.

### **Q: Why can't CCC just sell its inventory like private distributors?**

**A:** Because market prices are below forfeiture levels, CCC sale of sugar to the domestic sugar market at this time would simply encourage a like amount of additional FY 2001 sugar loan collateral forfeitures.

### **Q: Did last year's PIK reduce CCC's sugar inventory?**

**A:** Last year's PIK used 277,677 tons of CCC's refined sugar inventory. The 2000 PIK program also reduced potential FY 2001 forfeitures by diverting 102,000 acres of sugar beets from harvest. The approximately 300,000 tons of beet sugar that would have been made from the diverted acres would have put additional downward pressure on refined sugar prices.

### **Q: Why can't CCC find a beneficial use for its sugar inventory instead of trading it for a crop in the ground?**

**A:** The Department of Agriculture (USDA) has limited options for disposing of surplus sugar, unlike other food commodities. USDA has committed to sell up to 100,000 tons of refined sugar to ethanol producers. However to date, only 9,098 tons of refined sugar have been sold for ethanol. About 5,000 tons of CCC inventory will go for domestic feeding programs administered by the Food and Nutrition Service to sweeten cranberry juice cocktail. CCC has also offered processors storing CCC sugar the option of receiving monthly storage payments-in-kind. Other small amounts may be donated as opportunities arise. World Trade Organization commitments prevent CCC from selling the sugar into the world market.

If sugar prices increase sufficiently in 2002, CCC will sell its remaining inventory on the domestic market. A PIK program increases the likelihood that the burdensome surplus can be sold for unrestricted use on the domestic market in 2002.

## Questions and Answers

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**Q: How much CCC inventory will be used for the PIK Program?**

**A:** The total diversion program will be limited to 200,000 tons of CCC held sugar.

**Q: How will the offers be selected?**

**A:** The 2001 Sugar PIK Program will be conducted through a competitive offer process whereby each eligible offer will be compared with all other eligible offers after the end of the signup period. Each eligible offer will be ranked on the basis of the per acre offered amount as a percentage of the per acre bid cap. The lower the ranking percentage, the higher the offer will be ranked. Accordingly, producers who do not offer less than the bid cap are less likely to be accepted.

**Q: Is USDA concerned that the US sugar market may be short of sugar in FY 2002?**

**A:** No. Current market demand and supply conditions for FY 2002 do not indicate shortages. Should they develop, however, CCC will still hold significant inventory to return to the market.

**Q: In light of the recent court decision to no longer allow Heartland to import “stuffed molasses” into the United States, essentially taking 100,000 tons of sugar out of the US market, is a PIK program still necessary?**

**A:** Yes. The court decision will reduce sugar inflow somewhat, thus reducing total availability. However, it will only have a moderate price effect and is not enough to avoid further loan forfeitures. The court decision reinforces the PIK effect and should help preclude more forfeitures.

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